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Canada. Office of the Auditor General.
PEMS : a preview of accountability
performance and expectations.

(Discussion paper no. 8)

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DISCUSSION PAPER NO. 8

PEMS: A PREVIEW OF
ACCOUNTABILITY PERFORMANCE AND
EXPECTATIONS

BY
T.M. Koplyay

MAY 1982

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Introduction

This paper examines the rationale of the government Policy and Expenditure Management System (PEMS) within the context of general policy and planning models and identifies some of the issues related to reliability and accountability of the system.

The validity of these speculations will have to be tested at some future date, given that PEMS has been operational for only two complete cycles and hence cannot be expected to function as a fine-tuned operation. Nevertheless, some useful analysis can be carried out now on the key organizing principles and performance indicators of the system as it is.

The logic of the paper flows (meanders?) as follows:

- A brief review of the key features of a consistent policy and planning model that lends itself to evaluation and incorporates enough checks and balances to be considered to have met a degree of accountability and which permits a clear assignment of responsibilities corresponding to the originally delegated authorities. (How much have you accomplished of what was expected to you?)
- A description of PEMS and a discussion of the similarity between it and the above (ideal) model. (What is reasonable to expect under the circumstances?)


- An identification of the key issues linking PEMS to the concept of delegated authority, assigned and assumed responsibilities and potential for system (and individual) accountability. (Can you identify the perpetrator(s) once the crime is committed?)
- Finally, a few suggestions to improve the existing approach to both systems design and performance review. (What better role than that of the critic?)

A Framework for Policy and Planning

Policy-making and planning are closely related, although this fact is sometimes overlooked by even the most seasoned of analysts. Logic Model 1 defines the relative roles of planning and policy-making in an organization. Policy takes precedence over planning in both chronological order and priority.

The policy process should, under ideal conditions, extract the most relevant signals from the environment to select the most desirable future state for the organization. It incorporates and reconciles all the competing demands on the organization and arrives at a functional definition of the "line of business" that should be pursued and further defines the general expectations about organization performance. (This last step indirectly touches on accountability, to the extent that minimum levels of performance are defined for the organization.)

Once a policy position is identified, a target organization with a line of business compatible with the strategic objectives, derived from the policy position,

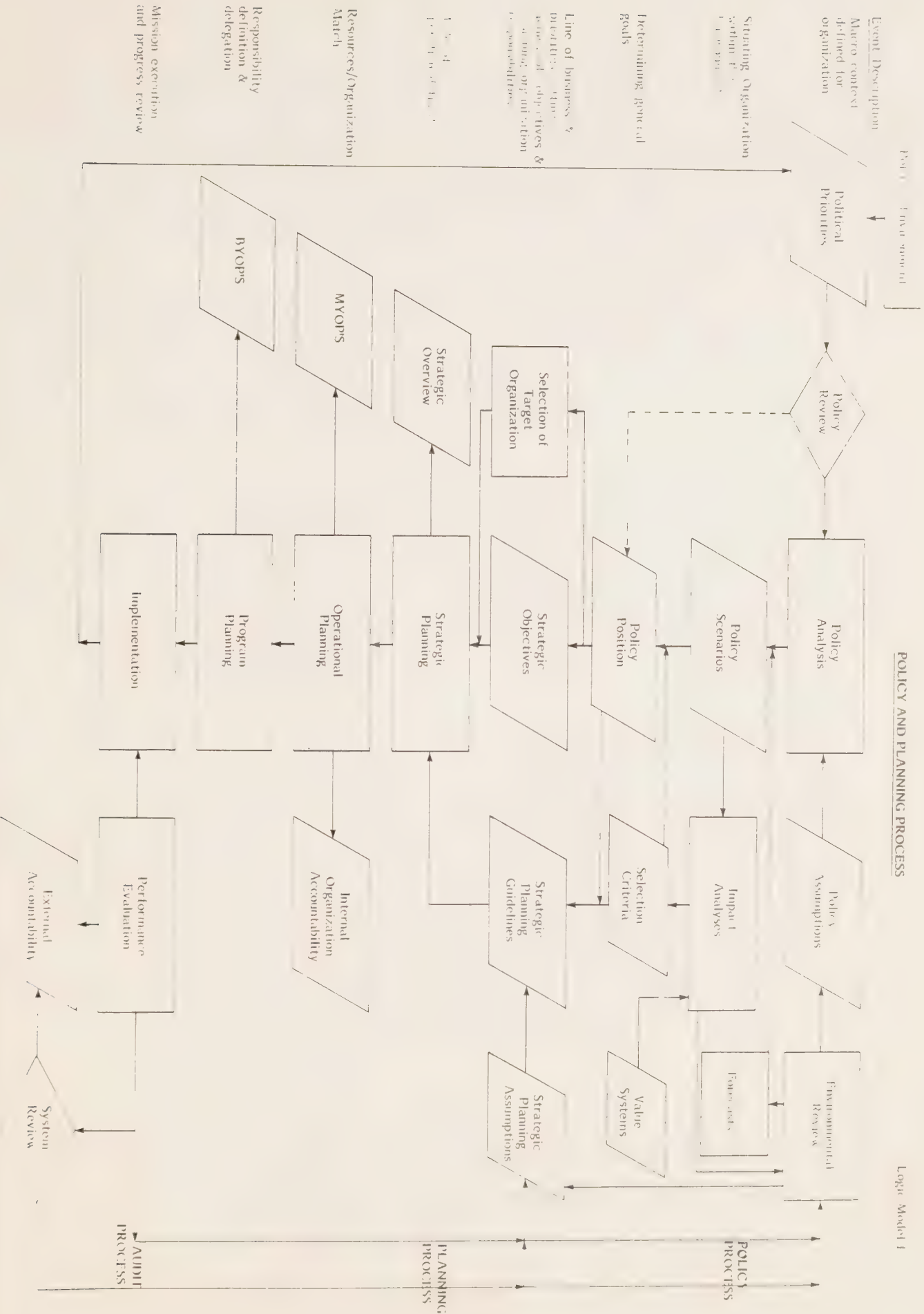


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POLICY AND PLANNING PROCESS

Logic Model 1



is selected. This is obviously a give-and-take affair. There may be no specific organization that fits the exact line of business requirements. Hence a negotiating phase may follow to restructure the organization mandate and/or share responsibilities with others and, beyond this, to modify the policy expectations to fit reality.

The sequence of analytical tasks that leads to the formulation of a policy position can be reduced sometimes to a simple act of political initiative, but it will normally incorporate these separate key functions:

- Review of the environment. This is a continuous process, and its intensity will depend on the complexity of the environment and the ability of the organization to react to external change. This process generates the basic set of policy assumptions and serves as the key input to the policy analysis component.
- Policy analysis. Knowledge of the environment and political priorities are synthesized to identify the main policy variables and their internal relationships to the level of a cause-effect orientation. Conventional political wisdom, theories of social and economic behaviour, and financial and system analysis continue to yield a specific world view related to the policy being developed. This process defines the reality of the present situation and therefore serves as a benchmark or reference level for the next phase.
- Policy scenario(s) development: a projection of the present reality into the future through manipulating certain input variables identified in the previous phase. Throughout this exercise the basic reference

level (do nothing option) serves as a means of comparison. (The reference level case is what is known to systems science as the free body model.) The identified policy scenarios are further tested against the original assumptions for stability over a period of time, likelihood of occurrence with respect to other options, and desirability, based on the political and social values of the day.

- **Impact analysis:** reviews the potential side effects of the projected scenarios on the environment and their consequences for the policy assumptions. It also extracts from the value systems of the day (both social and political) a set of selection criteria that will filter out undesirable policy options. The policy position is the end result of the application of the criteria.

Once the position is formulated, the policy process is over. The planning cycle begins with the statement of objectives, selection of a policy agent (a department to implement the policy) and general strategic planning guidelines that are compatible with the policy intent. The guidelines are derived partly from a set of planning assumptions that is generated as the policy process is completed. Planning assumptions address questions of feasibility, whereas policy assumptions are more concerned with the desirability of options and the expected likelihood of influencing the future course of events.

The planning guidelines normally deal with the planning life cycle, availability of resources, expected major milestones, accountability, and reporting relations and evaluation mechanisms.

The planning process cascades from the strategic to the operational level in a sequence of stages that are progressively more constrained and normative. Consequently, as planning progresses, outputs become more specific and measurable. They also are produced by lower levels of the organization. The information base for decisions, margins on choice, and freedom of action decrease until at the program level the time, resources and outputs are married to specific tasks and assigned to clearly identifiable responsibility centres.

The three levels of planning are described schematically in Logic Models 2, 3 and 4:

- Strategic planning analyses alternative courses of action to achieve policy ends and define resource limits.
- Operational plans match organizational capabilities with funding and time horizons. At this level, performance milestones, reporting relations and expected outputs are specified.
- Program plans chart activities through time cycle and define co-ordinating responsibilities.

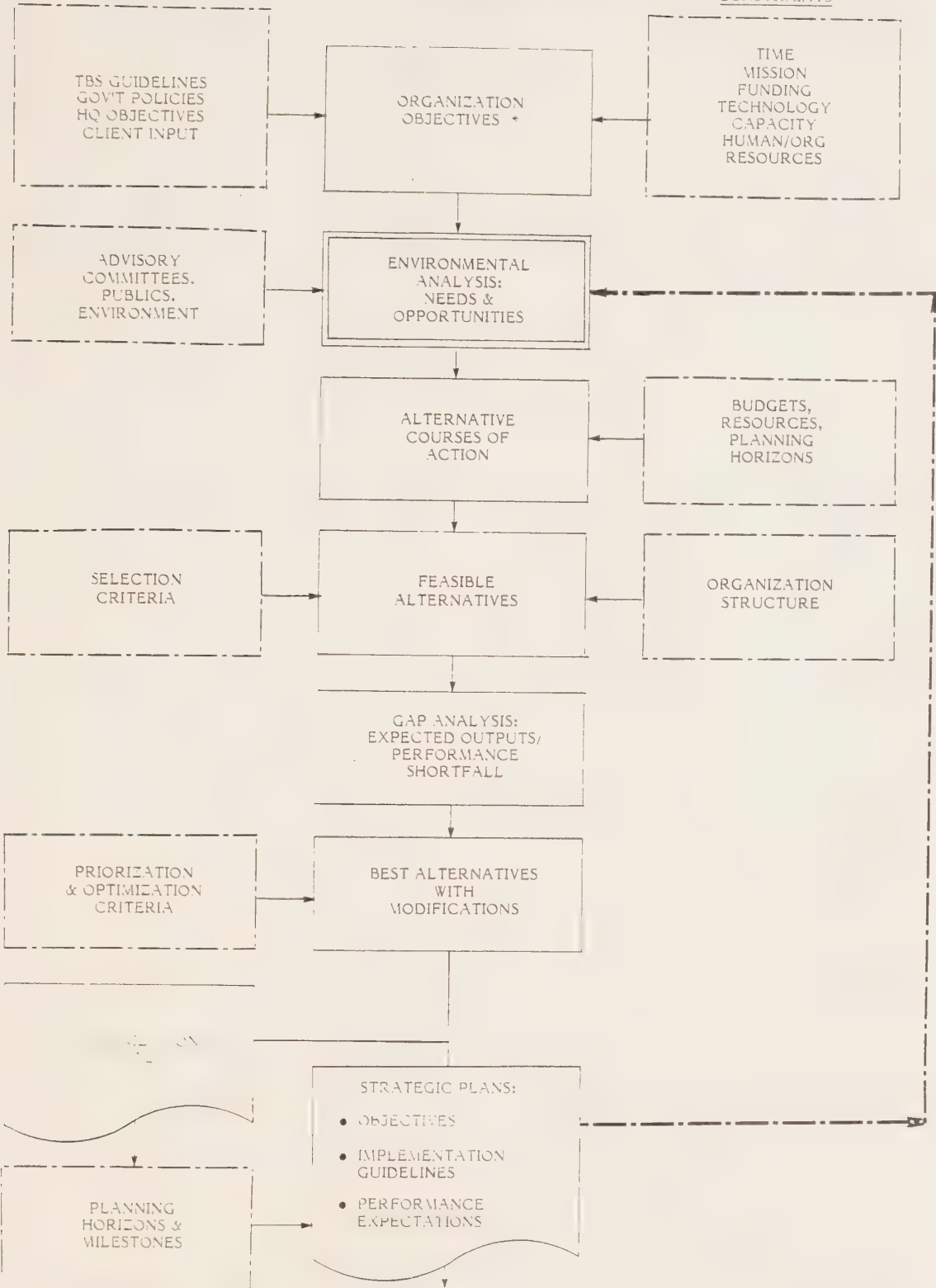
The PEMS Paradigm

The need to introduce a better government policy and expenditure management system was identified on several occasions by Royal Commissions and the Auditor General. The basic problem relates to the need to link policy

LOGIC MODEL
STRATEGIC PLANNING

INFORMATION

CONSTRAINTS



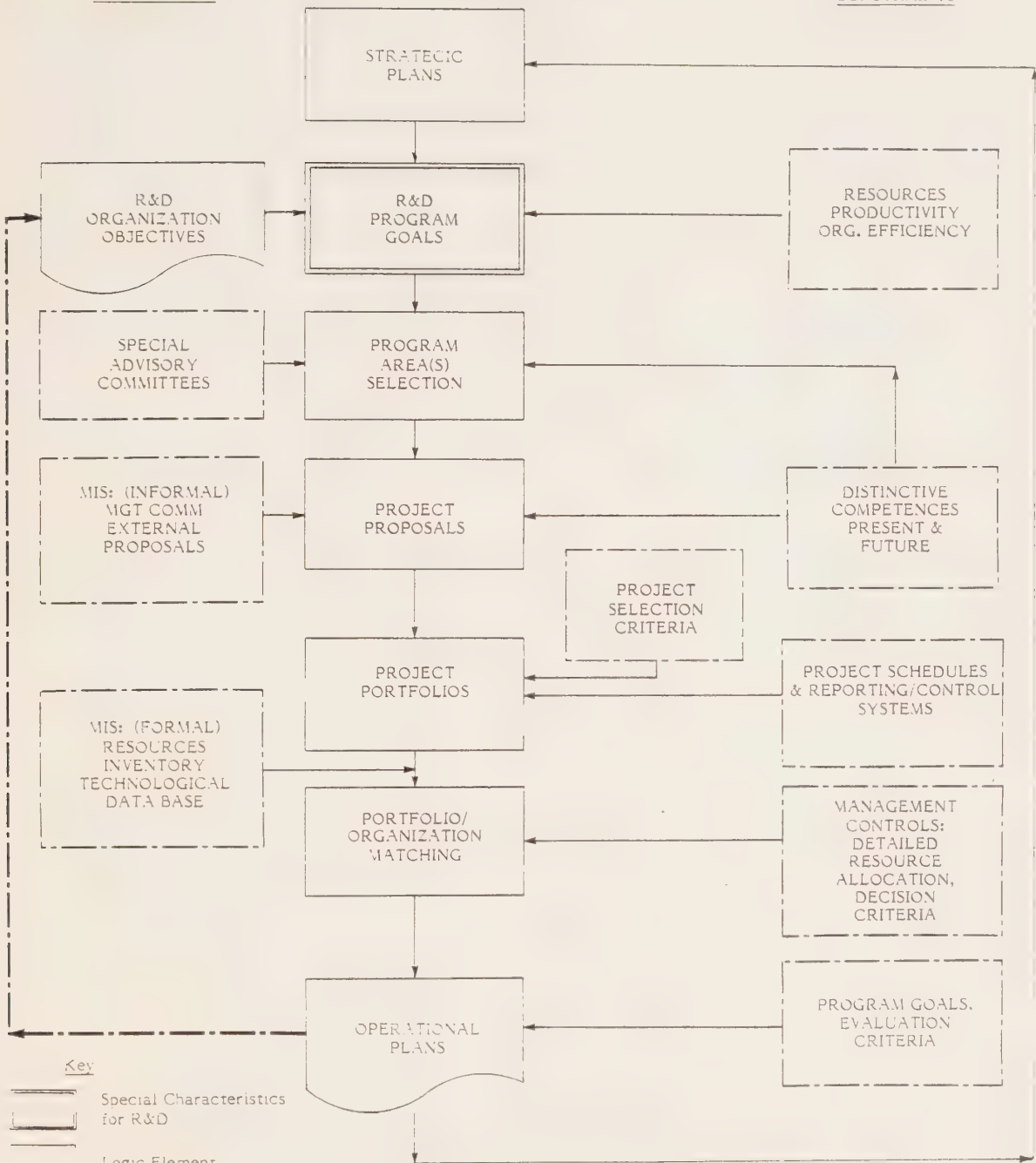
LOGIC MODEL

Logic Model 3

OPERATIONAL PLANNING

INFORMATION

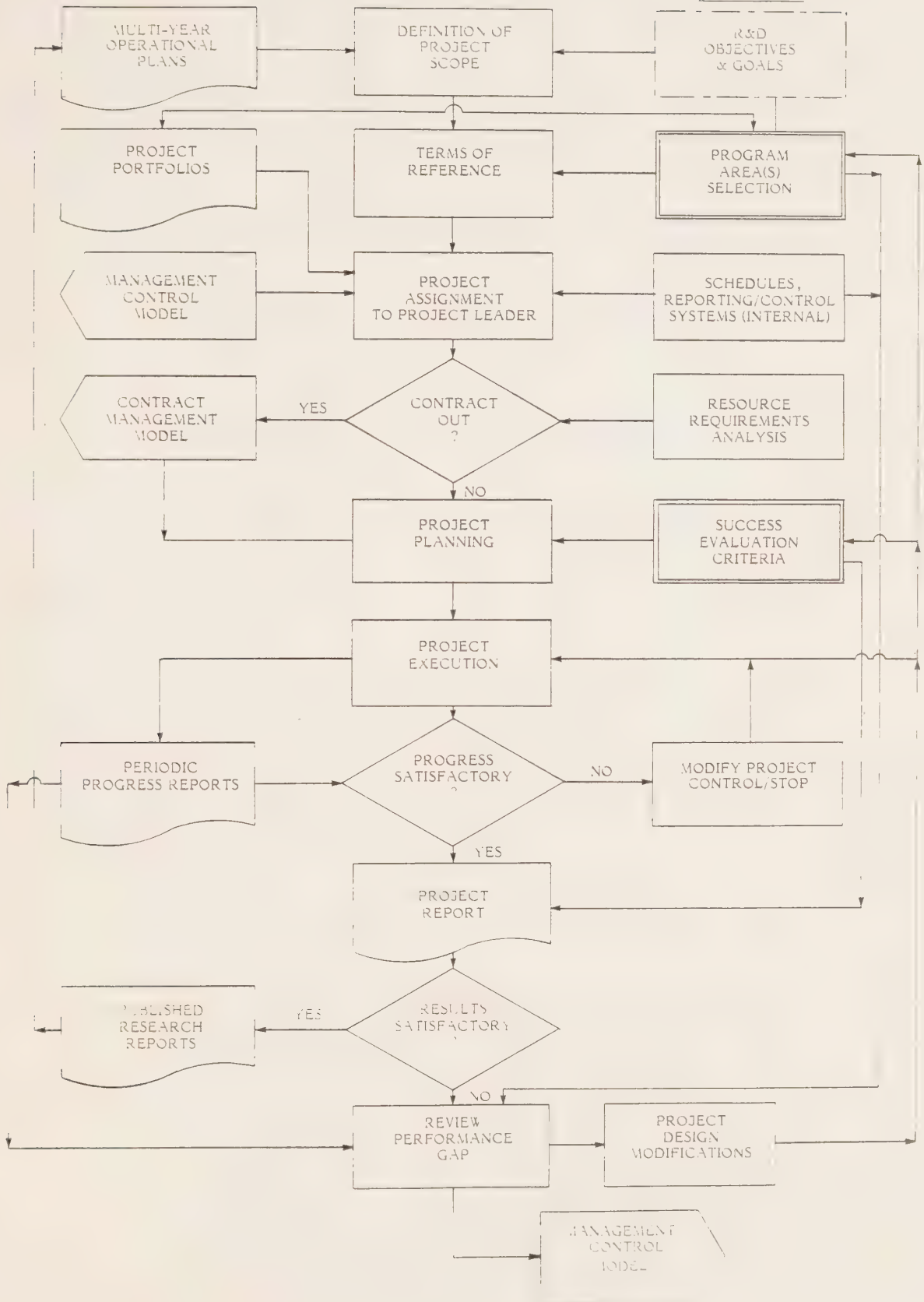
CONSTRAINTS



Logic Model 4

INFORMATION

CONSTRAINTS



priorities with costs and responsibility with authority in the management of public business.

The primary stated objectives of PEMS are:

- to provide long-term stability for policy objectives;
- to decentralize decision-making within Cabinet; and
- to increase ministerial direction of policy formulation.

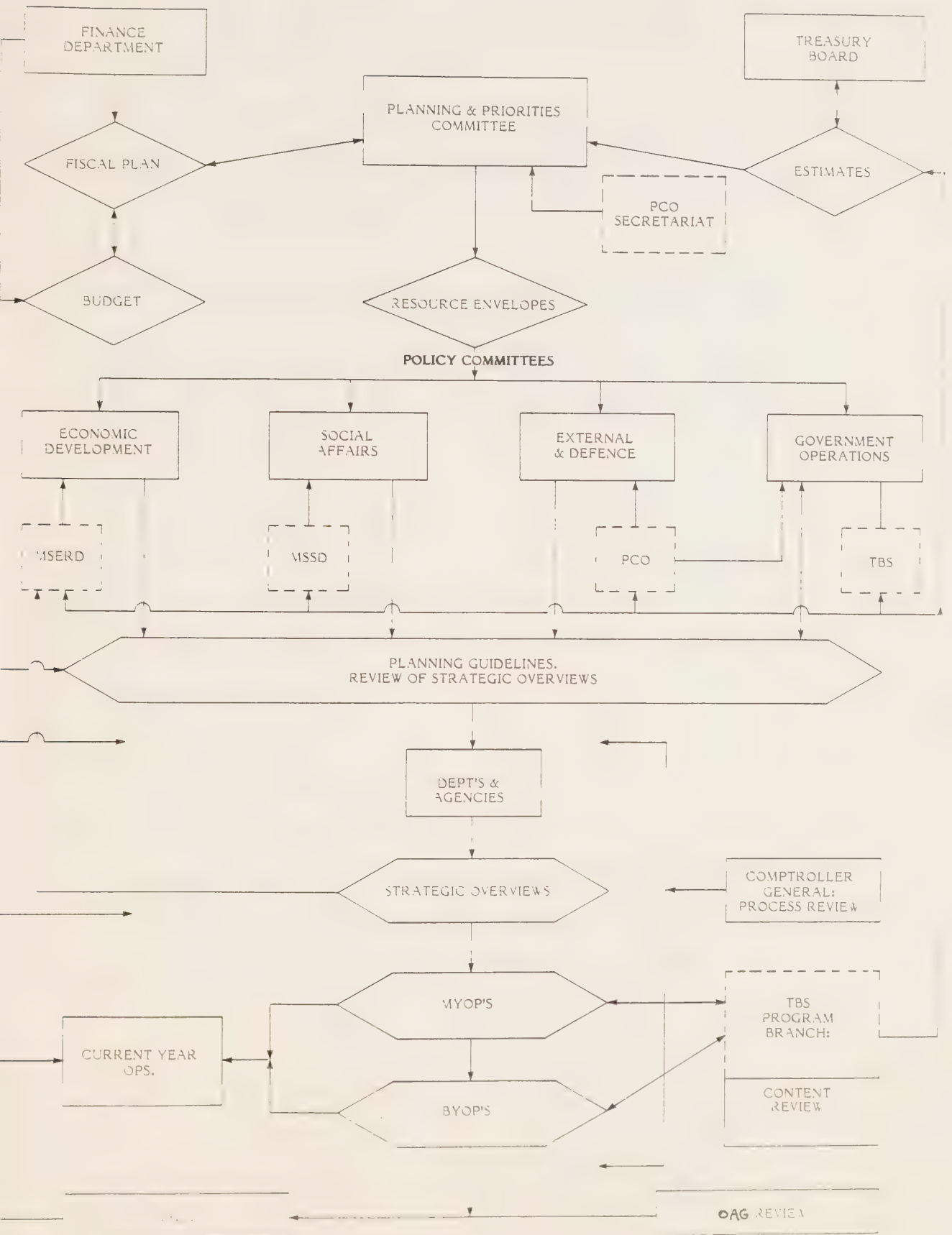
The essential features and the intended work of operation are captured in the following quotation from an internal report of the OAG and are displayed in Logic Model 5.

In the past, resource allocation has appeared as somewhat unstructured, often mysterious, and perhaps irrational. PEMS sets out a much more formal co-ordinated framework for making decisions which is new and quite ambitious. What distinguishes it from previous practices is the formal setting of overall expenditure limits up to four years in advance, and the formal consideration of policy and expenditure proposals not in isolation but in the context of the overall limits and related proposals. The major features of PEMS are the following:

- all government expenditure programs are divided into ten envelopes and the envelopes are assigned to four Cabinet committees;
- for the whole government and for each envelope, central agencies prepare expenditure and revenue projections which are approved by the Cabinet Committee on Priorities and Planning and published in a fiscal plan each year;
- Cabinet committees are theoretically free to re-allocate all the money within each of their envelopes although in fact most of it is "committed" several years into the future;
- to influence the share of envelope resources available to it, each department prepares a strategic overview, a multi-year operational plan, a budget-year operational plan, Cabinet submissions, and Treasury Board submissions;

PEMS STRUCTURE & DYNAMICS

Logic Model 5



- each Cabinet committee reviews the departmental strategic overviews, approves overall expenditure limits four or five years into the future, and also assesses departmental policy proposals for free balance funds in the shorter term. Several Cabinet committees have secretariats to assist them in this work;
- Treasury Board examines multi-year operational plans and budget-year operational plans and approves reference levels of resources required to carry on approved policies and programs. The Treasury Board Program Branch also examines some aspects of strategic overviews (although this is primarily a secretariat responsibility).

The government guides produced by the Treasury Board and the Privy Council Office describe PEMS in terms somewhat reminiscent of PPBS. They talk about "rational decision-making" and the need for analysis of alternatives and of the financial implications of policies. This means new and expanded central agencies, and more information to help ministers make decisions. It also implies a dramatic change in the way ministers act. If, however, these formal processes don't actually work, PEMS could turn out to be an expensive charade.

The new system appears to push the political process deeper into the bureaucratic structure as the departments and programs within envelopes learn to compete for limited funds. Conversely, it increases the formality of the policy process at the Cabinet level by insisting on a rational and structured review of competing policy alternatives.

The top-down flow of direction is well prescribed, but the process of policy-making and feedback on performance, when compared to the ideal of Logic Model 1 appears to be weaker than is necessary for the system to function properly from the point of view of maintaining political control over policy initiatives and expenditures. (These and other problems are explained in the next section.)

The Basic Issues

To understand the potential issues involved with PEMS better we should first explore the *raison d'être* for the policy/planning process.

In the most general sense, policy analysis explores and monitors the need for organizational change vis-à-vis changes in the environment. It identifies what needs to change, whereas planning answers the question of how to manage this change.

More specifically, policy analysis deals with the organization's line of business, desired or targeted future state, and its relationship with the environment, including approximate costs of reaching the desired state. The planning process identifies the possible paths of evolution to the targeted state and computes the effort required to accomplish each change of state (i.e., resources mapped against tasks over time for each alternative course of evolution).

The combination of the two can be characterized as a management function that

- identifies future states of the world and makes predictions about them (objectives tempered by reality of constraints);
- attempts to secure a preferred future according to an underlying value system (the ideal sought depends on the societal values);

- believes it has a choice from among two or more behaviour patterns (it chooses means of change); and
- functions within a set of constraints that define its freedom of action (such as organization structure, competence, resources and ability to influence or understand the environment).

Obviously the above process depends on the state of existing knowledge about the environment, ability to monitor the direction and magnitude of change, capacity to influence the environment and willingness to maintain flexibility in case the policy analysis was incorrect or incomplete.

We can now return to the potential problems associated with PEMS. For the sake of consistency and ease of reference, the problems will be classified according to generic categories.

Process and structural problems

- PEMS fails to define the policy development process and hence leaves the identification of key issues and environmental interaction to random actions of departments and the envelope committees. It fails to identify what constitutes an acceptable policy analysis, namely what one should know of the environment, how basic assumptions should be treated and what reasonable are scenarios are. In this sense, PEMS is incomplete.

- PEMS creates an artificial conflict situation when the same department's budget is handled by several envelopes. The unity of departmental management is destroyed and accountability is diluted within the department.
- The way secretariats communicate is not defined, nor are minimum contact levels established. Strategic overviews are sent to envelope secretariats, whereas budgetary information is forwarded through TBS. How and where should these secretariats co-operate to preserve a unity of purpose?
- PEMS may introduce, if it is not properly managed, a political dimension into the bureaucratic process of procuring operating funds. Departments will be tempted to compete for limited funds at the expense of co-ordination.
- Real ministerial accountability may be eroded by providing a collective approach to decision-making at the envelope level. Who is ultimately responsible to Parliament?
- PEMS emphasizes, perhaps unduly, the top-down approach to planning and policy. This may eventually cut the departments off from their traditional sources of ideas at the senior and middle management levels.
- By promoting the long-term planning concept, PEMS may introduce too much rigidity into an already formal model and lose the ability to react quickly to contingencies. Plans may become self-fulfilling prophecies.

Information and Communication Problems

- The secretariats have too much freedom to screen information coming from the departments. The very existence of such an information filter may be undesirable. Given that the secretariats' staffs are primarily generalists in policy and economic bent, valuable knowledge of the departments' lines of business may be lost in "editing".
- Communications between department and corresponding envelope secretariat are weak. Functional and scientific specialists find it hard to communicate with economists. This is not only a problem of "policy language" but one of different world views. If allowed to persist, the system will either break down or will create new informal channels of communication that bypass the PEMS.
- Most departments do not have the expertise at the corporate level to respond to PEMS demands. As new planning staff, external to the department and its line of business, is hired internal communication will be weakened in the short run. This state of affairs could lead to serious management control problems, where line units report one set of activities and perform another. Obviously both effectiveness and accountability are at stake here.
- An information overload may develop in the system. When departments cannot respond to specific information demands, they may forward information indiscriminately. In the process, the true value of the Estimates reforms would be lost.

Conceptual Problems

- Strategic overviews, MYOPs and BYOPs are reviewed for content and alignment with envelope priorities only. No examination is made, in general, of the quality of the analysis, underlying assumptions or validity of forecasts. Therefore, a common denominator for departmental submissions is not established.
- No real attempt is made to preserve the integrity of the envelopes. Some envelope ceilings have already been broken. This signals to the departments a lack of political commitment and the possibility of being the next exception to the rule. Accountability is a two-way street, and the government should respect the rules of its own game.
- The envelope committee process that dilutes a given minister's accountability also interferes with his ability to serve his constituents (i.e., agricultural issues may take second place to mineral development in the Economic Committee). This situation could lead to a mini power struggle within each envelope from which senior influential ministers would usually emerge victorious. In this way, political (personal) leverage could be manipulated into a bureaucratic advantage for a department.
- There are no real evaluative controls for PEMS, and any performance shortfall will not be known until after the fact. This is both costly and unnecessary.

- So many of the decision-making responsibilities of the departments have been assumed by PEMS that true departmental (bureaucratic) accountability may be impossible to trace unless PEMS as an entity is held accountable. Parliamentary tradition still expects the minister to answer for his portfolio, yet he may be able to deflect criticism and hide behind the collective shield provided by PEMS.

Suggestions for Changes to PEMS

Process and Structural Changes

- Define a common framework for policy position development. Each department's corporate planning staff should be familiar with the basic demands for policy analysis required by PEMS.
- Some departments should be restructured to fall within one envelope only. (This may entail some inter-departmental rationalization of roles.)
- Secretariats' expectations for policy/planning documents should be communicated to departments. These expectations should cover both content and analytical tasks. Secretariats should co-ordinate their demands through a common "ways and means" unit.

- Competition by departments within the same envelope should be reduced by explicitly recognizing a PEMS co-ordinating responsibility in the DM's duties.
- Individual ministerial responsibility may be replaced by envelope accountability to Parliament. (This is of dubious value.)
- To preserve ideas flowing from the bottom, each department should rotate future executives through the corporate planning branch.
- Each envelope should set aside uncommitted funds for contingencies. These funds can be progressively depleted as planning cycle goals are achieved.

Information and Communication Problems

- Secretariats should take on staff from client departments' corporate planning branches, and conversely, during the peak planning period, a secretariat liaison officer should be available for co-ordination purposes on the client side.
- After each planning cycle is completed, a review of information needs should be conducted and an attempt made to strike a balance between the need to know and the cost of information. The same applies to the Estimates.

Conceptual Problems

- Departmental submissions should be challenged for the quality of the analysis supporting them, and the envelope ceilings should be enforced so that the message is clear to departments that there cannot be a substantial increase through Supplementary Estimates tactics.

Post-Mortem

On the surface, PEMS appears to meet some of the criteria for sound decision-making in government. However, there are serious problems with the structure and logic of the process and the general lack of proper guidelines and specific expectations on

- how to analyse policy options;
- how to recognize and monitor environmental change;
- how to bridge the gap between the statement of the possible (policy positions) and the art of the probable (planning options);
- how to facilitate information processing in the system; and
- when or how to react to contingencies that are internal (PEMS procedures cannot cope) or external (unforeseen consequences of plans).

Given its impact on government programs, PEMS should be independently reviewed by an external auditor on a comprehensive basis. This audit should also examine the implications of collective decision-making for individual responsibility. (In case the hint is too subtle, the prime candidate for such an audit is the OAG.)

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